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SUBJECT: ARGENTINE AG EXPORT TAX APPROVED BY LOWER HOUSE OF CONGRESS

REF: (A) Buenos Aires 910 (B) Buenos Aires 0866 (C) Buenos Aires 0842 and previous

¶1. (SBU) Summary: By a vote of 129 to 122, the Fernandez de Kirchner government on July 5 won a closely fought battle in the Chamber of Deputies (Lower House) of the Congress to approve the controversial variable export tax regime for grains and oilseeds. The legislative battle now shifts to the Senate where a vote is slated for July 16. With the deputies' vote, the GOA achieved its main goal of leaving its variable export tax regime untouched, although it was forced to significantly expand the temporary compensation regime for medium and small producers in order to get the necessary votes. The revised compensation program is expected to cost approximately $1 billion, over a third of the additional revenue the GOA expects to collect from the variable export tax regime. The GOA is expected to have the votes necessary to gain approval in the Senate, though maneuvering continues and some additional sweeteners could be offered. Farm groups continue to be opposed to the measure and are now focused on lobbying members of the Senate for additional changes. End Summary

¶2. (SBU) The Chamber of Deputies (Lower House) of the Congress approved the controversial variable export tax regime for grains and oilseeds on July 5 by a vote of 129 to 122. The vote came after a final 19 hour session, during which the government was forced to make additional changes in the compensation program for medium and small producers in order to gain the necessary votes. Fourteen deputies from the ruling party voted against the proposal, which was approved with support from a diverse group of smaller parties. The government used a mix of pressure and sweeteners to assure its majority. The GOA achieved its main goal of leaving untouched the variable export tax implemented on March 11, which precipitated the farm dispute, marking a major but possibly pyrrhic victory for the government. The deputies also ratified the GOA's authority to make changes in the export tax in the future without congressional approval, while leaving the compensation program as a temporary measure, valid through October 31, 2008.

¶3. (SBU) Modifications to the compensation program were not sufficient to gain support of farm leaders, who continued to push for a lower export tax. The compensation program will provide small soybean producers of up to 300 tons a reimbursement of any export tax paid over 30 percent, while medium sized producers of up to 1,500 tons will be reimbursed any tax paid over 35 percent for the first 750 tons sold. Producers of more than 1,500 tons will pay the full tax, which is currently around 50 percent. The legislation also includes transportation subsidies for producers in the smaller provinces, which are further from the main ports. While exact figures on the cost of the compensation program are not available, the total cost is expected to be around $1 billion. This is substantially above the original estimated cost of the compensation program of between $600 and $700 million, assuming the government actually makes the agreed payments, and totals over a third of the

additional funds the GOA expects to collect from the higher export tax. Farm leaders rejected the program as insufficient, although they have called for producers to refrain from resuming the road blockades that had previously caused widespread disruptions. Many are very skeptical the government will actually make promised payments.

¶4. (SBU) The proposed legislation now moves to the Senate, where debate will begin on July 8, and a final vote is scheduled to take place on July 16. Farm groups have announced that they will lobby hard for additional changes, although most local observers expect the government to have less trouble gaining approval in the Senate. It is possible, however, that the government will offer various Senators a few more sweeteners, either targeted to their needs or aimed at the farm sector, to assure a bigger majority.

Comment

¶7. (SBU) The Kirchner administration gained a major but possibly pyrrhic victory with the approval of the variable export tax regime in the Chamber of Deputies. The government was able to gain ratification of the export tax regime it introduced in March but at tremendous cost. They have alienated the financially important (and now more politically important) farm sector. They brought to a boil the general discontent in large segments of the middle and upper-middle classes with the Kirchners' style of governance. They have created a serious split in the Peronist Party (PJ) and Victory Front (FPV) coalition. The President's and Nestor Kirchner's poll numbers have fallen significantly. Some clearly see them as damaged goods within the party. This makes them more susceptible to open challenges from within the coalition and complicates their prospects for keeping their hold on the Congress in the 2009 mid-term legislative elections. The President's Social Pact, with which she was going to relaunch her presidency, remains dead in the water. The effect on the economy remains to be seen, but consumers and investors seem to be more cautious and some are moving their money out of the banking system and perhaps the country. And, in the end, the issue at the heart of the farmers' complaint is not resolved. The export tax is now being debated in the Senate where the GOA has the numbers to pass the legislation. It could, however, ultimately be overturned by the Supreme Court and in any case the GOA will have to address this issue once again when the compensation program expires on October 31. While farm protestors are not currently blocking highways, that could change rapidly. It will take some time to figure out the ultimate costs (economic and political) of this "victory." Clearly the Kirchners believe the price was worth it. Time will tell. End Comment

WAYNE